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FISCAL IMPACT STATEMENT

LS 7657

BILL NUMBER: HB 1778

NOTE PREPARED: Jan 11, 2005

BILL AMENDED:

SUBJECT: Convention Center Funding.

FIRST AUTHOR: Rep. Buell

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: *Marion County Local Taxes:* The bill permits the Indianapolis City-County Council to: (1) increase the rate of the County Supplemental Auto Rental Excise Tax from 2% to 4%; (2) extend the expiration date of the County Supplemental Auto Rental Excise Tax from December 31, 2027, to December 31, 2040; (3) increase the rate of the Marion County Innkeeper's Tax to 9% through 2040 (the tax rate would be reduced to 5% in 2041); and (4) increase the rate of the County Admissions Tax from 5% to 6%.

Special License Plate: The bill requires the Bureau of Motor Vehicles to issue one or more Capital Improvement Board Team License Plates upon the request of the Marion County Capital Improvement Board and requires the Board to use revenue from the plates for payment of obligations relating to a capital improvement that is used for professional football events.

Marion County Professional Sports and Convention Development Area (PSCDA): The bill removes the limit on the annual amount of state revenue that may be captured by a professional sports development area in Indianapolis (the current limit is \$5,000,000 per year). The bill removes the requirement that a capital improvement paid for with state revenue captured by a professional sports development area be used for a capital improvement that is used for a professional sporting event.

Marion County Convention and Visitors Development Area (CVDA): The bill permits the Indianapolis Metropolitan Development Commission to establish a convention and visitor development area as a tax area to capture Sales Tax, Adjusted Gross Income Tax, County Option Income Tax, and Innkeeper's Tax to be used for capital improvements serving the convention and visitor industry.

Effective Date: July 1, 2005.

Explanation of State Expenditures: *Special License Plate:* The potential expenditures involved with this proposal will depend upon the number of colors used and the number of plates produced. PEN Products (Prison Enterprises Network), the manufacturing and sales arm of prison-made products, charges the Bureau of Motor Vehicles (BMV) and other groups petitioning for the creation of a new license plate(s). These charges consist of:

- (1) \$3.80 per plate (flat plate).
- (2) \$4.50 per multi-colored flat plate.
- (3) \$450 one-time set-up. This includes plate set-up by PEN graphic designer.
- (4) PEN Products can prepare, but it is not required, camera artwork for the newly created plate at an hourly rate of \$45.

The funds affected are the PEN Products Revolving Fund and the Motor Vehicle Highway Account, which supports the BMV.

Explanation of State Revenues: *Marion County Convention and Visitors Development Area (CVDA):* The bill would allow the Marion County Metropolitan Development Commission to establish a CVDA before July 1, 2008. The bill requires the CVDA to terminate no later than December 31, 2040. The bill specifies that the CVDA is a special taxing district enabling the county to provide special benefits to taxpayers in the CVDA.

The bill permits the CVDA to contain noncontiguous tracts of land within the county and does not limit the overall geographic scope of the CVDA. The bill also allows the county to capture certain “covered taxes” that are attributable to the CVDA. The “covered taxes” are the state Sales Tax, the state Use Tax, the state Adjusted Gross Income (AGI) Tax, the County Option Income Tax, and the Innkeeper’s Tax. The bill does not require any review or approval by the Budget Committee or the State Budget Agency before covered state taxes may be captured in the CVDA. (This type of approval process is required under current statute for capture of state taxes within a Professional Sports and Convention Development Area or a Community Revitalization Enhancement District.) The bill does not set an annual maximum on state taxes that the CVDA may capture, and it allows the capture of these taxes for up to 36 years. In addition, capture of taxes is not limited to incremental taxes arising after the establishment of the CVDA, but allows capture of all covered taxes attributable to the CVDA.

The captured tax collections must be deposited in the CVDA Fund established by the bill. The CVDA Fund is non-reverting and is to be administered by the Department of State Revenue. Distributions from the Fund must be made by warrants issued by the Auditor of State to the Treasurer of State ordering the payments to the Marion County Capital Improvement Board. The Capital Improvement Board is authorized to use the money in the CVDA Fund for acquisition, construction, improving, and equipping of a capital improvement that is used for the convention and visitor industry; or a local public improvement in or serving the CVDA.

Since the potential duration and geographic area of the Marion County CVDA is unknown, the impact of this bill is indeterminable but could be significant as tax capture is not limited to incremental tax amounts. If all or a substantial portion of Marion County was declared a CVDA, the impact on Sales Tax and AGI Tax revenues would be significant. Sales Tax revenue projected for Marion County in CY 2005 is \$808,836,391, and the projection for CY 2006 is \$846,851,702. In addition, 2002 AGI tax collections in Marion County totaled about \$508.4 M.

Sales Tax revenue will be deposited in the Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%). Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

Marion County Professional Sports and Convention Development Area (PSCDA): The bill extends the term of the Marion County PSCDA from 2027 to 2040. This allows Marion County to capture state individual Adjusted Gross Income (AGI) Tax and Sales and Use Tax revenue in the PSCDA for an additional 13 years. The bill also eliminates the \$5 M annual capture limit on AGI and Sales and Use Taxes collected in the PSCDA beginning in 2006. This will reduce individual AGI Tax and Sales and Use Tax collections to the state by \$2.2 M in FY 2006 and \$5.5 M in FY 2007. Individual AGI Tax and Sales and Use Tax collections in the Marion County PSCDA exceeded the \$5 M capture limit by \$3.89 M in FY 2002, \$4.2 M in FY 2003, and \$5.5 M in FY 2004.

Special License Plate: The proposal establishes a fee of \$25 for the Capital Improvement Board Team License Plates. While the potential revenue from the sales of the newly created license plates is not known, in CY 2003, revenue from the sale of special recognition license plates fell within a range of \$5,475 for the sale of 219 Mental Health Trust plates to \$1,712,200 for the sale of 68,488 Heritage Trust license plates. Revenue from the sales of the license plates are to be deposited into the Capital Improvement Board Professional Sports Trust Fund, established by the bill. As a special recognition plate, there also is a \$15 supplemental fee, with \$6 deposited into the Motor Vehicle Highway Account, which supports the BMV, and \$9 of the fee is deposited into the State License Branch Fund, which supports the 168 state license branches. In CY 2003, revenue from the \$15 supplemental fee fell within a range of \$3,285 for the sale of the 219 Mental Health Trust license plates to \$1,027,320 for the 68,488 Heritage Trust license plates.

The Commissioner of the BMV is required to administer the Capital Improvement Board Professional Sports Trust Fund. The Fund is non-reverting, and expenses of administering the Fund are to be paid from the Fund. The State Auditor is required to distribute money in the Fund to the Marion County Capital Improvement Board each month. The Capital Improvement Board is to deposit the money into a special fund. Money in the special fund may be used only for payment of obligations relating to a capital improvement that is used for professional football events, including the financing or refinancing of such a capital improvement or the payment of lease payments for such a capital improvement.

Explanation of Local Expenditures: *Marion County Professional Sports and Convention Development Area:* The bill removes the requirement that a capital improvement paid for with state revenue captured by a professional sports development area be used for a capital improvement that is used for a professional sporting event. Therefore, the additional revenue captured can be used to construct, renovate, or equip a capital improvement, including the financing or refinancing of a capital improvement or the payment of lease payments for a capital improvement. This would also allow the additional revenue to be used by the Capital Improvement Board for the CVDA.

Currently, the Marion County PSCDA includes Conseco Fieldhouse, the Indiana Convention Center, the RCA Dome, Victory Field, and the Colts' practice facility. These captured state and local tax collections are utilized for debt payments relating to Conseco Fieldhouse.

Marion County Convention and Visitors Development Area: The bill allows the Metropolitan Development

Commission to establish a CVDA after establishing certain findings as outlined in the bill. The CVDA is considered a special taxing district to enable the county to provide special benefits to taxpayers in the tax area by promoting economic development. The resolution establishing the area must designate the improvements to be undertaken and must include the acquisition, construction, expansion, renovation, or equipping of a hotel or similar facility serving the convention and visitor industry, along with the estimated costs of the improvements.

Explanation of Local Revenues: *Marion County Convention and Visitors Development Area:* The bill would allow the Marion County Metropolitan Development Commission to establish a CVDA before July 1, 2008. The bill does not limit the geographic size of the CVDA and does not set a capture limit for taxes attributable to the CVDA. In addition, capture of County Option Income Tax (COIT) and Innkeeper's Tax is not limited to incremental taxes arising after the creation of the CVDA. The bill allows taxes to be captured for up to 36 years. Currently, Marion County imposes a 6% Innkeeper's Tax and a 0.7% COIT. Under current statute, the COIT rate could be increased by 0.1% annually up to a maximum rate of 1%. The Innkeeper's Tax generated about \$19.7 M in collections during FY 2004. Marion County's certified COIT distribution for CY 2005 is about \$104.8 M.

In Marion County, COIT revenues are used for two purposes. First, the county uses COIT to fund a local homestead credit equal to 8% of a homeowner's net property tax levy. The remaining revenue is distributed to the civil taxing units as certified shares.

The impact of capturing COIT depends on the size of the CVDA and the amount of COIT allocated to the CVDA. If the CVDA encompasses enough of the county that the unallocated COIT revenues fall below the amount needed to fund local homestead credits, then the homestead credits would be reduced or eliminated. Regardless of the size of the CVDA, certified shares for each civil taxing unit would be reduced proportionately, or eliminated if the CVDA is co-terminus with the county. In CY 2004, \$15.8 M was earmarked for local homestead credits and \$94.8 M was distributed as certified shares.

Marion County Professional Sports and Convention Development Area: The bill extends the term of the Marion County PSCDA from 2027 to 2040. This will extend capture of Food and Beverage Tax and COIT collections within the PSCDA for use on PSCDA projects. Current statute provides for the capture of Food and Beverage Tax and COIT collections within the PSCDA. Approximately \$159,000 in Food and Beverage Tax was captured by the PSCDA in FY 2004. In CY 2003, about \$466,000 in COIT collections were captured for the Marion County PSCDA. Currently, these captured local tax collections are utilized for debt payments relating to Conseco Fieldhouse.

In addition, the bill eliminates the \$5 M capture limit for state individual AGI Tax and Sales and Use Tax collected in the PSCDA beginning in 2006. This could potentially increase state tax revenue captured by the PSCDA by \$2.2 M in FY 2006 (due to the January 2006 effective date) and \$5.5 M in FY 2007.

Marion County Local Taxes: The bill increases the maximum rate for the Supplemental Auto Rental Excise Tax, the Innkeeper's Tax, and the County Admissions Tax in Marion County. The table below reports the current rate imposed in Marion County, the additional rate authorized by the bill, and the revenue that could potentially be generated by the additional tax rate. These estimates are likely the minimum that could be generated initially by the additional rates and would probably grow annually as a result of the projects to be supported under this bill.

Tax	Current Tax Rate	Additional Tax Rate	Annual Impact
Supplemental Auto Rental Excise Tax	2%	2%	\$1.8 M
Innkeeper's Tax	6%	3%	9.9 M
Admissions Tax	5%	1%	1.0 M
Total			\$ 12.7 M

Background Information: Supplemental Auto Rental Excise Tax: The bill increases the maximum tax rate in Marion County from 2% to 4%. The bill provides for this maximum through December 31, 2040. Currently, the tax is imposed at a rate of 2%. The tax is imposed on the gross retail income received from the rental of an automobile or truck weighing less than 11,000 pounds for a period of less than 30 days in Marion County. Revenue from the tax is distributed to the Marion County Capital Improvement Board. The 2% tax generated about \$1.83 M in FY 2004, and has generated an average of about \$1.86 M annually since FY 2001.

Innkeeper's Tax: The bill increases the maximum tax rate in Marion County from 6% to 9%. The bill provides for this maximum through December 31, 2040. After that, the rate will decrease to 5%. The tax is imposed on gross income from lodging income. Revenue from the tax is distributed to the Marion County Capital Improvement Board. The 6% tax generated about \$19.7 M in FY 2004, and has generated an average of about \$19.2 M annually since FY 2001.

County Admissions Tax: The bill increases the maximum tax rate in Marion County from 5% to 6%. The tax is imposed on the price of admission to any event held in the RCA Dome, the Convention Center, Victory Field, or Conseco Fieldhouse. Revenue from the tax is distributed to the Marion County Capital Improvement Board. The 5% tax generated about \$5.04 M in FY 2004, and has generated an average of about \$4.57 M annually since FY 2001.

State Agencies Affected: Bureau of Motor Vehicles, Department of State Revenue, State Treasurer.

Local Agencies Affected: Marion County, Marion County Metropolitan Development Commission, Marion County Capital Improvement Board.

Information Sources: LSA, *Indiana Handbook of Taxes, Revenues, and Appropriations, FY 2004*. Sandy Althouse, Department of State Revenue, (317) 232-4263.

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